



STATE OF IOWA

IOWA CAPITAL INVESTMENT BOARD
G.R. NEUMANN, CHAIR

January 17, 2012

The Honorable Terry Branstad
Governor of Iowa
Statehouse

Michael Marshall
Secretary of the Senate
Statehouse

Charlie Smithson
Chief Clerk of the House
Statehouse

Dear Governor Branstad, Mr. Marshall and Mr. Smithson:

Enclosed is the annual report of the Iowa Capital Investment Board submitted in accordance with Iowa Code section 15E.46. The only current activity of the Board relates to the contingent tax credit certificates related to investments made in the Iowa Fund of Funds.

As noted in the report, the Board was pleased that the 20% tax credit program for investments in qualifying businesses and community-based seed capital funds was renewed by the legislature in 2011. This program, along with the new innovation fund investment tax credit program, will be administered by the Iowa Economic Development Authority. The Board stands ready to assist the Economic Development Authority in getting these programs starting and continuing the effort to establish a venture capital infrastructure in Iowa.

As required by Iowa Code section 7A.11A, one printed copy and one electronic copy will be delivered to the Secretary of the Senate and the Chief Clerk of the House.

Respectfully,

A handwritten signature in black ink, appearing to read "G.R. Neumann", written over a horizontal line.

G.R. Neumann, Chair
Iowa Capital Investment Board

Enclosures

IOWA CAPITAL INVESTMENT BOARD 2011 ANNUAL REPORT

BACKGROUND

The Iowa Capital Investment Board (“Board”) was established in 2002 by an Act of the General Assembly (2002 Iowa Acts, House File 2078). The Board is created as a state governmental board. The purpose of the Board is to mobilize venture equity capital for investment that will result in a significant potential to create jobs and to diversify and stabilize the economy of the state of Iowa.

The Board consists of five voting members and four nonvoting members. The five voting members are appointed by the Governor and subject to confirmation by the Senate. (Currently, there are only three members of the Board). The four nonvoting members consist of one member each appointed by the Majority Leader of the Senate, the Minority Leader of the Senate, the Speaker of the House and the Minority Leader of the House. (Currently, there are only three nonvoting members of the Board). The Board is a public board subject to public notice and open meetings. A listing of the voting and nonvoting members of the Board is attached to this report.

The primary duties of the Board include the following:

- 1) Develop a system for issuance, registration and authorization of tax credits for investments in qualifying businesses and community-based seed capital funds as provided in Iowa Code section 15E.43. This program provides for a tax credit equal to 20% of the equity investment in a qualifying business or community-based seed capital fund. The tax credit was capped at \$10 million, and this cap was reached in January 2008. The Board has not issued any tax credits since January 2008 related to this tax credit program.
- 2) Establish a system for the issuance and redemption of tax credits for investments in venture capital funds as provided in Iowa Code section 15E.51. This program provides for a tax credit equal to 6% of the equity investment in a venture capital fund. This tax credit was repealed by the legislature as part of 2010 Iowa Acts, Senate File 2380. The last tax credit certificates for this program were issued in September 2010.
- 3) Establish criteria and procedures for the issuance, transfer and redemption of contingent tax credits for investments made in the Iowa Fund of Funds administered by the Iowa Capital Investment Corporation as provided in Iowa Code section 15E.66.

Therefore, the only current activity of the Board relates to the contingent tax credit certificates for investments made in the Iowa Fund of Funds.

ACTIVITIES DURING 2011

The Board held one meeting in February 2011. At that meeting, the Board approved the issuance of a \$57 million contingent tax credit certificate related to investments in the Iowa Fund of Funds. This replaced the \$36 million contingent tax credit certificate that was issued in January 2008. This was the maximum amount of contingent tax credit that could be issued since Iowa Code section 15E.65(2)(c) requires that 5% of the Iowa fund of funds must be invested in programs related to loan guarantees and other credit related enhancements to rural and small business borrowers. Since the maximum amount

of contingent tax credit certificates that can be issued is \$60 million, \$3 million are reserved for the rural and small business borrowers.

In January 2010, the Board authorized the issuance of a contingent tax credit certificate totaling \$1 million of the \$3 million available for loan guarantees and other credit related enhancements to rural and small business borrowers as required by section 15E.65(2)(c). The project for which this \$1 million contingent tax credit was issued has been completed, and no portion of the \$1 million contingent tax credit was redeemed. Therefore, there was no cost to the state related to this contingent tax credit.

TAX CREDIT CERTIFICATES

As noted above, no tax credit certificates were issued in 2011 related to the tax credit for investments in qualifying businesses, community-based seed capital funds, or venture capital funds. Therefore, there are no changes from the 2010 report to the list of qualifying businesses, community-based seed capital funds, venture capital funds, and tax credits issued to each of investors in each of these businesses and funds. In addition, no redeemable tax credit certificates have been issued.

Iowa Fund of Funds

A contingent tax credit certificate totaling \$1 million was issued in January 2010 related to a portion of the Iowa fund of funds that must be invested in programs related to loan guarantees and other credit related enhancements to rural and small business borrowers as required by Iowa Code section 15E.65(2)(c). This is in addition to the \$57 million contingent tax credit certificate that was issued in February 2011 to replace the \$36 million certificate issued in January 2008. The Iowa legislature as part of 2010 Iowa Acts, Senate File 2380, reduced the amount of contingent tax credits that can be issued from \$100 million to \$60 million. More information on activity related to the Iowa funds of funds can be found in the annual report filed by the Iowa Capital Investment Corporation. **The Board has been advised by representatives of the Iowa Fund of Funds that the \$40 million financing secured by the contingent tax credits may not be renewed in February 2012. This could cause a portion of the \$57 million in contingent tax credits to be claimed if the loan is not refinanced. The Board has met with representatives of the Fund of Funds to discuss possible alternative courses of action and will continue to monitor the situation.**

FUTURE ACTIVITY

The Board was pleased that the 20% tax credit program for investments in qualifying businesses and community-based seed capital funds was renewed by the legislature as part of 2011 Iowa Acts, Senate File 517. The tax credit program will now be administered by the Iowa Economic Development Authority (EDA), and the Board will assist the EDA in getting this program started again. In addition, the EDA will also administer the new innovation fund investment tax credit, which also provides for a 20% tax credit for investments in an innovation fund that is certified by the EDA.

These incentives will continue the venture capital initiatives that were begun in Iowa nearly ten years ago, and this will continue the efforts to build a venture capital infrastructure in Iowa.

IOWA CAPITAL INVESTMENT BOARD (ICIB)

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